Exhibit 99 (

Schedule

MCI COMMUNICATIONS CORPORATION AND SUBSIDIARES
ACCUMULATED DEPRECIATION OF COMMUNICATIONS SYSTEM
(IN MILLIONS)

Column A	Column B	Column C	Column D	Column E	Column F
	Balance at beginning of period	Additions charged to expense	Retirements or sales	Other Additions (deductions)	Balance at end of period
For the year ended December 31, 1994:					
Communications system in service	$3,197	$ 886	$ (834)	$ (8)	$3,241
Furniture, fixtures and office equipment	850	248	(219)	(6)	873
Other property and equipment	250	26	(41)	0	235
Total	$4,297	$1,160	$(1,094)	$ (14)	$4,349
For the year ended December 31, 1993:					
Communications system in service	$3,140	$ 688	$ (605)	$ (26)	$3,197
Furniture, fixtures and office equipment	769	213	(99)	(33)	850
Other property and equipment	242	51	(38)	(5)	250
Total	$4,151	$ 952	$ (742)	$ (64)	$4,297
the year ended December 31, 1992:					
Communications system in service	$3,170	$ 599	$ (590)	$ (39)	$3,140
Furniture, fixtures and office equipment	618	193	(59)	17	769
Other property and equipment	199	51	(18)	10	242
Total	$3,987	$ 843	$ (667)	$ (12)	$4,151

Exhibit 99 (c

Schedule VII

MCI COMMUNICATIONS CORPORATION AND SUBSIDIARES
VALUATION AND QUALIFYING ACCOUNTS
ALLOWANCE FOR UNCOLLECTIBLES
(IN MILLIONS)

	Balance at Beginning of Period	Additions	Deductions (Write-Offs)	Balance at End of Period
December 31, 1994	$211	394	379	$226
December 31, 1993	189	346	324	211
December 31, 1992	156	411	378	189

MCI COMMUNICATIONS CORPORATION

1995 ANNUAL REPORT

Report

Exhibit D-2

...UT MCI

...headquartered in Washington, D.C., is one of the ...d's largest and fastest growing diversified communi- ... companies. MCI offers consumers and businesses ... portfolio of services including long distance, ..., local access, paging, Internet software and ... information services, outsourcing, business soft- ... advanced global telecommunications services, and ... distribution and merchandising.

...kholders who want information in addition to ...al reports can contact MCI's Investor Relations ...artment at 1-800-765-2115 ...et: 640-5834@mcimail.com)

...ormation on MCI® products and services contact:

...nsumers: 1-800-444-3333
...ss Customers: 1-800-937-6000
...kMCI BUSINESS: 1-800-955-5195
...t: http://www.mci.com

CONTENTS

...THE BACK COVER:

...unveiled its new logo to symbolize its unique ...mpetitive position following the passage of the ...lecommunications Act of 1996. The new "star-burst" ... represents MCI's heritage as a creator of innovative ...es for its customers. The logo and its colors — ...'s traditional orange and a vivid blue — illustrate the company's energy and strength as a global communi-...ons leader for the New Century.

TO MCI's STOCKHOLDERS:

A REMARKABLE YEAR

By any measure, MCI® had a remarkable year in 1995.

We had outstanding calling volume, revenue growth, operating income and earnings. It is clear that long distance is one of the world's most dynamic and healthy businesses and that MCI continues to lead the growth of our industry.

Perhaps most important of all was how we prepared your company for the future — a future that includes new competitors and the greatest growth opportunity in MCI's history now that the local telecommunications market is open to competition.

Bert C. Roberts, Jr.

In last year's letter, I said that 1995 would be a pivotal year. It was. We delivered on our goal to grow our core long distance business. We also made great progress in our goal to leverage the core business into contiguous markets and to integrate digitized content and delivery.

In 1995, MCI became much more than a long distance company. We became one of the world's most diversified communications corporations. We made strategic investments in areas such as information technology, global services and wireless communications. We also developed ways to create and deliver digitized content. We became more because our relationships with our customers have changed and so has the definition of our business.

In the past, MCI had a transactional relationship with our business customers, principally carrying their voice and data traffic. Later, we served a consultative role by helping them design their telecommunications networks. Today, as the needs of our customers have changed and our portfolio of services has grown, we have become their strategic partner, integrally linked with our customers' businesses.

Our relationship with customers in the residential market also has changed. Consumers are increasingly using sophisticated MCI services such as electronic mail and paging.

No company has been as aggressive or effective as MCI in providing customers with new products and services. And our ability to innovate, to market new products, and to continue to address the marketplace better and faster than others will ensure our success in the future as it has in the past.

Success in the telecommunications market is no longer a simple matter of price. Success today is about meeting complex customer needs with valuable services — something MCI has been doing since its inception.

STRONG RESULTS

We certainly pleased our customers in 1995, as evidenced by another year of record revenue. And, as our stockholders asked us to, we have begun reporting our core business and ventures and developing markets separately.

For the full year, revenue was $15.3 billion, an increase of $2 billion, or 14 percent, over 1994 revenue of $13.3 billion. The core business drove this growth with revenue of $15 billion, which was a 13 percent increase from 1994.

Excluding special charges, overall net income rose to $1.1 billion in 1995, a 20 percent increase over 1994 net income of $887 million. Earnings per share was $1.55, a five percent increase over $1.47 for 1994, excluding charges in both years.

Operating cash flow grew to $3 billion, a 26 percent increase over $2.4 billion in 1994. This improvement resulted from new efficiencies in our business, largely from efforts to streamline our operations, which began in the third quarter of 1995. MCI recorded special pretax charges of $831 million as part of our restructuring actions. Including these charges and charges recorded in the prior year, 1995 earnings per share was 80 cents versus $1.32 for 1994.

MCI's marketplace is full of positive trends. It is clear that communications are increasingly being used by people to conduct their everyday lives. Our growth has come from our agility and the quickness with which we identify and capitalize on these trends.

In 1995, a full one-third of the new customers we gained in the residential market came to us through newly introduced brands.

MCI also had a combined 20 percent increase in revenue from products such as 1-800-COLLECT®, calling cards and 800 numbers. The enhanced Friends & Family® brand enjoyed another strong year as well.

Business markets had strong growth in 800 and international services. Data services revenue exceeded $1.5 billion in 1995, a 34 percent increase in revenue over 1994. In the near future, our business customers will transmit more data traffic than they do voice traffic. This is a very significant change in the way customers are transmitting information, and our data services have expanded to reflect this trend.

.ECOMMUNICATIONS LEGISLATION: THE GREATEST ›PORTUNITY IN MCI HISTORY

On February 8, 1996 — a day we declared "Independence Day" for local telephone customers — President Clinton signed legislation that reforms antiquated laws which have been on the books for more than 60 years.

This legislation opens to competition a massive, $500 billion communications and information market with exploding growth potential. The players in this market will use innovative new products and services and increased geographical reach to literally change the way the world communicates and functions. The new, highly advanced services that competition will create will produce still more demand, more services, and more growth for the successful companies operating in this market.

For MCI, the opening of the local telecommunications market represents the greatest opportunity in our history. The last time we faced a similar opportunity was in 1985 — the year "equal access" freed customers from dialing extra numbers to place their long distance calls. Then, we looked at competing in a $46 billion long distance market, which has grown into a $75 billion market. Now, the newly opened local market is more than $94 billion and is estimated to grow to ˜128 billion by 2002.

Not only does MCI now have an extraordinary revenue ᴗpportunity by offering local services, we have the chance to cut deeply into access costs that are 46 percent of our revenue.

The local market is also as rich as it is big. While operating cash flow for the long distance industry is a healthy 20 percent, the seven regional Bell operating companies (RBOCs) have an operating cash flow of 46 percent.

One of MCI's distinguishing characteristics is how we view customers. We don't have the inherited customer base of a monopoly — we fought for every customer we have. And, over the last five years, the company has captured nearly 40 percent of the entire growth of the long distance market, which has more than 500 competitors. Maybe that's why MCI is often characterized as our industry's best marketer.

We have a variety of ways to pursue the vast local market, including partnering with other companies to construct and use an alternative local network. We can also enter into discounted resale agreements with the RBOCs.

Finally, we have the resources of MCImetro℠. At the end of 1995, MCImetro had 38 local city networks operational in 25 major U.S. cities with 10 local service switches installed. MCImetro currently has regulatory approval as a competitive local exchange carrier in 15 states, with applications pending n five additional states. We will use MCImetro to expand the :livery of enabling technologies to our customers, and to drive access cost reductions.

LEVERAGING THE CORE BUSINESS INTO CONTIGUOUS MARKETS

Contiguous markets are markets in which our services can be integrated with the MCI network and support systems and delivered to customers in a valuable package. In 1995, we made key investments to broaden our portfolio of services.

In September, we purchased Nationwide Cellular Service, Inc., the largest independent reseller of cellular phone service in the country, for approximately $210 million. While others are investing billions in wireless infrastructure, the acquisition of Nationwide and other agreements have given us access to more than 75 percent of the U.S. population, including all of the top 100 U.S. markets. We accomplished this for a fraction of the cost of a massive build-out.

We introduced consumer and business customer cellular services in 1995. Our business service is initially available in top 10 markets and will be expanded nationally.

Cellular service can be integrated with our other wireless product: paging. MCI had tremendous success in the marketing and selling of paging products in 1995. In our first year of offering service, MCI became the fastest growing provider of pagers in the country.

One of the most promising opportunities for MCI is in professional services and information technology (IT), which combined will be a $250 billion market in 1999. This market includes call center outsourcing, network and computer consulting and systems integration.

MCI has already used our skills in operating the world's most technologically advanced call centers. We are providing services to customers such as Reader's Digest and Compaq. We are also providing customer service for Microsoft's Microsoft Network.

In November 1995, MCI acquired SHL Systemhouse Inc. for approximately $1.1 billion to offer customers a wide range of computing consulting and outsourcing services.

MCI is combining our network products with SHL's computing, consulting, and outsourcing expertise. SHL has more than 6,000 IT professionals and staff and is a recognized leader in helping customers transform their earlier generation mainframe technology to advanced client/server systems.

MCI and SHL have already introduced a suite of Enterprise Management Services to address customers' network, computing and systems requirements. For example, in early 1996 we installed a new system to handle all emergency 911 calls in the five boroughs of New York through a system built by SHL.

SHL will also serve us well in marketing and selling services through our alliance with Microsoft, which was announced in January 1996.

MCI and Microsoft will jointly develop and market a variety of Internet and network services. The alliance aligns two tremendous forces: MCI's marketing and network distribution capabilities and Microsoft's strength in the computer software and applications market. The net result is that customers will be able to get state-of-the-art networking and Internet capabilities packaged with a variety of other MCI services.

Our investments should give you an understanding of why I am so optimistic about our future not only in the U.S., but around the world.

In 1995, Concert*— the joint venture company formed by MCI and British Telecommunications plc, which is providing worldwide voice and data services for multinational customers — continued to build on its substantial industry lead. Concert has quickly established itself as the premier international alliance, and the Concert network is deployed in more than 50 countries. MCI and BT also have more than $1 billion in contracts and 2,500 customers of services such as Concert Virtual Network Services, Concert Frame Relay Service, and Concert Packet Services.

In Mexico, AVANTEL®, MCI's joint venture with Grupo Financiero Banamex-Accival (Banacci), is progressing very well. We began construction of a 3,200 mile fiber-optic network in 1995 that will connect Mexico City, Monterrey, Guadalajara, and 30 other Mexican cities. In fact, by the end of the first quarter, we will have 75 percent of network construction completed.

When the $7 billion Mexican telecommunications market opens for competition in August 1996, the joint venture will offer a full range of domestic and international business services. We will offer full switched long distance services for the entire market beginning in January 1997.

INTEGRATING DIGITIZED CONTENT WITH DELIVERY

Powerful content is driving the need for expanding bandwidth requirements. We see the integration of content creation and its delivery as a very important element in serving customers. That's why we've invested in and partnered with The News Corporation Limited.

News Corp. is the premier global creator and distributor of content. Its properties include the Fox Broadcasting Network; Twentieth Century Fox movie studio; HarperCollins publishing; more than 130 English-language newspapers and magazines, including TV Guide; BSkyB, the leading pay subscription satellite TV service in the U.K.; and STAR TV satellite service, which reaches two thirds of the world's population.

MCI has the unique opportunity to take advantage of the incredible abundance of News Corp. properties. We can use News Corp.'s expertise to develop new services that can be delivered online or through digital satellite. In January, MCI won the last satellite license that spans across the entire U.S. for $682 million.

Together with News Corp., we will be able to offer a distribution service not only in the continental U.S., but around the globe by late 1997. News Corp.'s vast experience will serve us well in offering specialized information and entertainment programming to the home. We also intend to exploit many untapped business market applications, such as delivering software, corporate information, distance learning and training programs.

GREAT OPPORTUNITY AHEAD

Throughout our history, MCI has done what others thought was impossible.

In addition to identifying and seizing big market opportunities in the long distance industry, we've actually created new markets by introducing competition where none previously existed. Two recent examples are call center outsourcing and the collect calling market.

Today a large new opportunity is ahead of us. To succeed, we will do what we always have done — use our creativity to develop new markets and capture opportunities with our unique energy and spirit.

We plan to continue to leverage our creative advantages and to join with powerful partners. We will also implement our ideas better and faster than anyone else through our "infostructure," which combines our marketing and merchandising ability, databases, customer service platform and distribution channels.

With the momentum of our performance and these strengths, we can confidently answer the question of how we will continue our tremendous record of success in the new communications and information market.

We know the game we're in because we've been here before. In fact, we helped create it.

Now is the time for MCI to again do what we instinctively do best — create, compete and win.

Bert C Roberts J

Bert C. Roberts, Jr.
Chairman and Chief Executive Officer

February 24, 1996

*Concert is a mark of the Concert Communications Company.

SELECTED FINANCIAL INFORMATION

ar ended December 31, *(n millions, except per share amounts and employees)*	1995	1994	1993	1992	1991
RESULTS OF OPERATIONS					
Revenue	$ 15,265	$ 13,338	$ 11,921	$10,562	$ 9,491
Total operating expenses	(14,147)	(11,882)	(10,653)	(9,351)	(8,400)
Income from operations	1,118	1,456	1,268	1,211	1,091
Equity in income (losses) of affiliated companies	(187)	(4)	(2)	(2)	(1)
Income before extraordinary item	548	795	627	609	551
Net income	548	795	582	609	551
Earnings applicable to common stockholders	548	794	581	589	522
Earnings per common and common equivalent share	.80	1.32	1.04	1.11	1.00
Cash dividends per share	.05	.05	.05	.05	.05
BALANCE SHEET					
Gross investment in property and equipment	$ 15,547	$ 13,408	$ 11,618	$10,316	$ 9,684
Total assets	19,301	16,366	11,276	9,678	8,834
Long-term debt	3,444	2,997	2,366	3,432	3,104
Stockholders' equity	9,602	9,004	4,713	3,150	2,959
CASH FLOW					
Cash from operating activities	$ 2,979	$ 2,355	$ 1,978	$ 1,726	$ 1,271
Capital expenditures for property and equipment	2,866	2,897	1,733	1,272	1,377
Acquisition (disposition) of businesses and investment in affiliates and News Corp.	2,737	284	8	(22)	–
OPERATIONS					
Capacity circuit miles	6,786	4,767	3,556	2,107	1,888
Billable calls	23,365	19,411	16,484	14,245	12,189
Number of full-time employees	50,367	40,667	36,235	30,964	27,857

In September and November 1995, the company acquired all of the outstanding shares of common stock of Nationwide Cellular Service, Inc. and SHL Systemhouse Inc., respectively. These acquisitions were accounted for as purchases; accordingly, the net assets and results of operations of the acquired companies are included in the information above since their respective acquisition dates.

In 1994, British Telecommunications plc (BT) completed the purchase of 136 million shares of the company's Class A common stock for $4.3 billion, which resulted in a 20% voting interest in the company. This was achieved by the issuance of 108.5 million shares of Class A common stock to BT for $3.5 billion on September 30, 1994 and BT's conversion of 13,736 shares of Series D convertible preferred stock, purchased for $830 million in June 1993, into 27.5 million shares of Class A common stock. This investment is reflected in stockholders' equity.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of the company's consolidated results of operations and financial condition. The discussion should be read in conjunction with the consolidated financial statements and accompanying notes.

The company operates predominantly in a single industry segment, the telecommunications industry. The industry consists of a wide range of telecommunications services to residential and business customers, including domestic and international long distance voice and data services, teleconferencing and electronic messaging services, which are the markets in which the company has historically operated (core business). Management has embarked on a strategy to expand the company's business into certain developing markets, including the local, wireless, information technology and multimedia markets, which is discussed in further detail in the Enterprise Reporting section of Management's Discussion and Analysis.

FINANCIAL SUMMARY

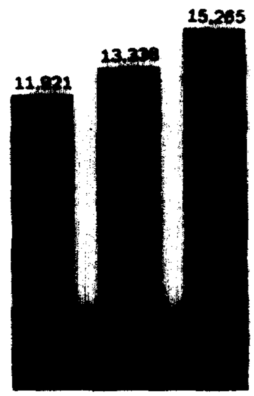
In 1995, total revenue grew $1.9 billion or 14% over the prior year versus $1.4 billion or 12% in 1994. Revenue from the company's core business grew $1.7 billion or 13% and traffic increased 16% over 1994. The company's revenue growth from its core business in 1995 was approximately 33% of the total long distance industry growth, estimated to be approximately $5 billion.

	1995 vs. 1994	1994 vs. 1993
Increase in core business revenue	13%	12%
Increase in traffic	16%	12%
Revenue to traffic variance	(3)%	-%

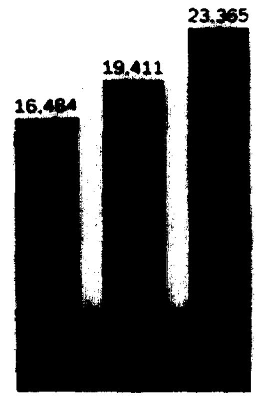
In 1995, the company's variance of (3)% between revenue growth and traffic growth in the core business was due primarily to growth in large account and carrier market traffic, which typically carries both a lower average revenue rate and lower overall costs, and due to increased volume and promotional discounts for consumer market customers. International growth of 33% in 1995 and 20% in 1994 continued to affect the revenue to traffic variance favorably.

Income from operations decreased 23% to $1,118 million in 1995, which followed a 15% increase in 1994. In 1995, 1994 and 1993, operating income was affected by special pretax operating charges of $736 million, $133 million and $150 million, respectively. Excluding these charges, which are discussed below, operating income and margins would have been $1,854 million or 12.1% in 1995; $1,589 million or 11.9% in 1994; and $1,418 million or 11.9% in 1993.

REVENUE
in millions of dollars



BILLABLE CALLS
in millions



Earnings were $548 million or $.80 per share for 1995; $794 million or $1.32 per share for 1994; and $581 million or $1.04 per share for 1993. Excluding special items in 1995, 1994 and 1993, and an extraordinary loss on early debt retirements in 1993, earnings per share would have been $1.55, $1.47 and $1.28, respectively. The September 1994 issuance of 136 million shares of Class A common stock to British Telecommunications plc (BT) had a full year dilutive impact on earnings per share in 1995 versus 1994 and 1993. In 1995, earnings per share was also negatively affected by the results of the company's recent business acquisitions and investments in ventures and developing markets.

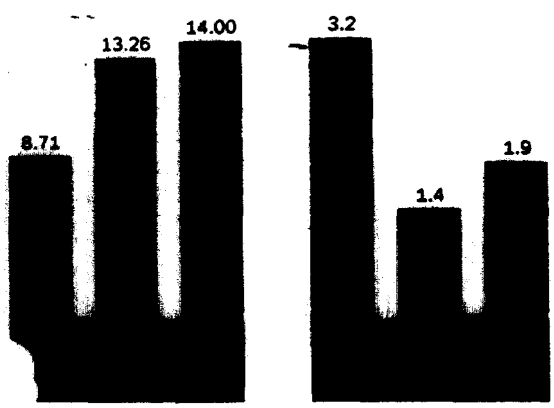
In 1994, BT completed its purchase of 136 million shares of the company's Class A common stock for $4.3 billion, which resulted in a 20% voting interest in the company. This was achieved by the issuance of 108.5 million shares of Class A common stock to BT for $3.5 billion on September 30, 1994 and BT's conversion of 13,736 shares of Series D convertible preferred stock, purchased for $830 million in June 1993, into 27.5 million shares of Class A common stock.

During the third quarter of 1995, the company implemented a reorganization designed to increase efficiency, enhance marketplace effectiveness and improve business focus. The reorganization was largely in response to the rapid changes in business scope, technology and regulation affecting the telecommunications industry. The company consolidated its core business and centralized major administrative functions. The core business includes network operations, information systems and the former Business Markets and Consumer Markets groups. In connection with the reorganization and other third quarter 1995 events, the company recorded special pretax charges of $831 million. After the applicable tax benefit, the charge resulted in a reduction to earnings of $518 million, or $.75 per share.

1994, the company recorded special pretax items totaling 48 million, which related primarily to reduced utility of older asynchronous fiber-optic transmission equipment and product launch costs. In 1993, the company recorded a special pretax charge of $150 million primarily associated with a strategic realignment and streamlining of engineering and network operations. Also, 1993 results included an extraordinary loss of $45 million, net of tax benefit, for the early retirement of debt.

BOOK VALUE PER SHARE
in dollars

MARKET TO BOOK RATIO



BUSINESS ACQUISITIONS AND INVESTMENTS IN VENTURES AND DEVELOPING MARKETS

In November 1995, the company acquired all the outstanding shares of SHL Systemhouse Inc. (SHL) for U.S. $13 per share or approximately U.S. $1.13 billion. The company anticipates that SHL, a Canadian corporation which provides information technology services to commercial and government enterprises, will provide it with the ability to design, build and manage information solutions that integrate computing and communications technologies for its business customers.

In September 1995, the company acquired all the outstanding shares of Nationwide Cellular Service, Inc. (Nationwide) for approximately $210 million. The acquisition of Nationwide represents part of the company's strategy to provide wireless services integrated with other company services for both consumer and business customers. In addition, during 1995, the company negotiated agreements with a number of cellular companies to purchase wireless services for resale. These agreements, including arrangements that Nationwide has with other cellular carriers, give the company the ability to market wireless services in the top 100 U.S. markets.

In August 1995, the company made an initial investment of $1 billion in The News Corporation Limited (News Corp.). The investment was comprised of (i) an aggregate of 51 preferred shares of two U.S. subsidiaries of News Corp. (News Triangle Finance, Inc. and News T Investments, Inc.) with a stated value and liquidation preference of $850 million and bearing a dividend rate of 5.147% (which is eligible for the dividend received deduction under current income tax laws) and (ii) a four year warrant (purchase price of $150 million) to acquire up to approximately 155 million News Corp. ordinary shares for $850 million. The exercise price of the warrant is payable, at the company's option, in cash, through the surrender of the preferred shares or a combination of both. In addition, the company has an option for five years to invest an additional $1 billion under the same terms and for the same consideration as its initial investment. Under certain circumstances, News Corp. shall have the right to cause the company to make the additional $1 billion investment or a portion thereof. In January 1996, News Corp. exercised a portion of this right by requiring the company to invest $350 million in the first half of 1996. As a result of the alliance with News Corp., the companies are working together on the formation of ventures in the multimedia service arena, including a direct broadcast satellite (DBS) venture.

During 1995, the company also invested a total of approximately $800 million in other ventures and developing markets, including Concert Communications Company (Concert), AVANTEL S.A. de C.V. (AVANTEL) and MCImetro, Inc. (MCImetro). Furthermore, in January 1996, the company and Microsoft Corporation announced their intent to enter into a strategic alliance to jointly market and develop a range of services in the on-line, Internet and networking markets.

These acquisitions and investments are discussed in more detail in the Enterprise Reporting section.

CURRENT LEGISLATION

On February 8, 1996, the Telecommunications Act of 1996 (the Act) was signed into law. This legislation constitutes the most comprehensive revision of the United States' communications policies in more than 60 years. The Act eliminates legal barriers to competition in the local telephone market and, at the same time, contains provisions intended to protect consumers and businesses from unfair competition by the seven regional Bell operating companies (RBOCs). The RBOCs will be able to offer long distance services outside their regions immediately, but will be barred from offering in-region long distance services until they have opened their own markets and face facilities-based local competition. Further, the entry of an RBOC into the long distance market in its region requires the approval of the

Federal Communications Commission (FCC) which, in consultation with the Department of Justice, must find such entry to be in the public interest. With the passage of the legislation, the company can enter local telephone markets by building new facilities, reselling local network capacity, and partnering with other new market entrants, including other long distance companies. It is too soon to determine the legislation's eventual impact on the company's financial position and results of operations.

RECENT ACCOUNTING PRONOUNCEMENTS

In October 1995, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation." SFAS 123 establishes financial accounting and reporting standards for stock-based employee compensation plans and is effective for fiscal years beginning after December 15, 1995. The company expects to continue to apply the accounting provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," in determining its net income. However, beginning in 1996, additional disclosures will be made about the estimated compensation expense under the method established by SFAS 123.

RESULTS OF OPERATIONS

REVENUE

In the business market, revenue and traffic showed continued growth in 1995 and 1994, which was driven by increases in most segments, particularly mid-sized customer, large account and carrier segments. Revenue increases in 1995 were primarily attributable to growth in data products, which grew 34% in 1995, as well as the continued success of the company's virtual private network product (Vnet®), MCI Vision® and 800 services. The 1994 revenue growth was largely in 800 revenue, which resulted, in part, from the FCC's 800 service number portability ruling, which took effect in May 1993, and in data revenue, which increased 35% in 1994, in part, from the company's purchase of BT North America Inc. in January 1994.

In the consumer market, revenue and traffic growth in 1995 and 1994 was driven by the company's Friends & Family products, collect-calling product (1-800-COLLECT), calling card products and consumer 800 number products.

In 1995, revenue of acquired companies contributed to approximately 10% of the company's consolidated year-over-year revenue growth.

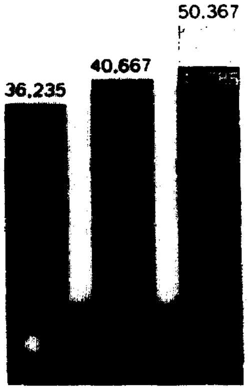
TELECOMMUNICATIONS

The principal components of telecommunications expense are the cost of access facilities provided by local exchange carriers and other domestic service providers, and payments made to foreign telephone companies (international settlements) to complete calls made to foreign countries from the U.S. by the company's customers. In the core business, telecommunications expense as a percentage of revenue declined to 51.9% in 1995 from 52.1% in 1994 and 53.7% in 1993 due to reductions in domestic access and international settlement rates. The decline from 1993 was also a result of efficiencies resulting from operator services automation.

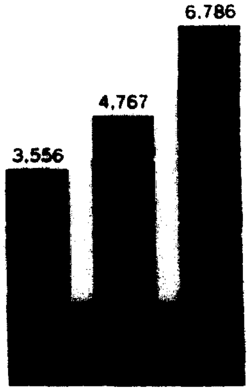
SALES, OPERATIONS AND GENERAL

Sales, operations and general expenses increased as a percentage of revenue to 29.5% in 1995 from 28.4% in 1994 and 27.8% in 1993. The year-over-year increases primarily related to special charges of $216 million in 1995, discussed below; $70 million for the launch of networkMCI BUSINESS™ in 1994; and the $150 million realignment charge in 1993. The 1995 sales, operations and general expenses also include the cost of hardware and licensed software of approximately $64 million, which related to information technology services revenue of SHL since its acquisition in November 1995. Excluding these costs and the special charges, sales, operations and general expenses would have been 27.7%, 27.9% and 26.5% of revenue in 1995, 1994 and 1993, respectively. The 1995 decrease in these expenses as a percentage of revenue was primarily due to cost savings associated with reorganization efforts, while the increase in 1994 was primarily due to higher personnel costs, higher levels of advertising and related sales and marketing expenses.

NUMBER OF FULL-TIME EMPLOYEES



CAPACITY CIRCUIT MILES
in millions



DEPRECIATION

Depreciation expense increased year-over-year by $132 million or 11% in 1995 and by $206 million or 21% in 1994. These increases were primarily a result of additions to the communications system network, which were made in order to increase network capacity, redundancy and reliability. The 1995 depreciation expense reflected depreciation savings associated with the asset write-down discussed below. Depreciation expense in 1994 also included a $63 million special charge to recognize the reduced utility of older asynchronous fiber-optic transmission equipment and to reflect the results of an asset utilization review. The company expects depreciation expense to continue to increase with the expansion of its communications system network.

1995 SPECIAL CHARGES

As previously mentioned, the company recorded special pretax charges of $831 million during the third quarter of 1995. The charges were comprised of the following three major components.

The company recorded a $520 million charge for an asset write-down, which reflected a decline in value of certain of the company's assets caused by changes in the business and technology strategy. The write-down primarily related to communications systems and administrative assets that have become redundant or were no longer aligned with strategic product offerings. The amount of the write-down was measured in conformity with the Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which the company adopted in the third quarter of 1995. Under this standard, charges were taken for the difference between the current carrying value and the estimated fair value of such assets at the expected disposal date. In the company's case, the fair value of most of the assets covered by this write-down was deemed to be salvage value. Disposal or abandonment of substantially all of these assets occurred by December 31, 1995.

The company also recorded a $216 million charge in sales, operations and general expenses, which related primarily to reorganization costs. These costs included approximately $50 million of severance associated with a workforce reduction, $55 million of lease obligations and penalties associated with vacating facilities, and $45 million of costs to modify and terminate contracts associated with changes in the business organization and strategic product offerings. The remainder of the charge included other costs associated with the company's business reorganization and certain legal costs. The company expects to reduce its workforce by approximately 2,800 employees, of whom approximately 2,400 had left the company at December 31, 1995. The remaining employees are expected to leave during the first half of 1996. The terminated employees, which included management and nonmanagement, were primarily sales, support and systems engineering personnel located at business administrative and operations sites. The company abandoned excess and duplicate facilities at various business and operations locations due to automation, workforce reductions and centralization.

As of December 31, 1995, the company had incurred $55 million of the accrued reorganization costs with the majority of the remaining costs to be incurred during 1996. The remaining accrual is primarily comprised of costs associated with lease obligations, severance, modification and termination of contracts, other business reorganization costs and certain accrued legal costs. The reorganization accrual is charged when applicable severance payments are disbursed, or when rental expense is incurred or lease termination costs are disbursed, or when contract settlements are completed and payment is disbursed. Other costs are charged as incurred. Cash expenditures for these expenses were and will continue to be funded from cash from operations.

In addition, the company recorded a charge of $95 million in equity in income (losses) of affiliated companies, which related to several investees where restructuring plans were implemented in the third quarter of 1995 or where product offerings were not expected to generate future cash flows sufficient to recover current carrying values.

As a result of the reorganization, the company expects to realize annual savings of approximately $100 million in sales, operations and general expenses. The depreciation savings from the asset write-down will partially offset increases in depreciation expense from continuing additions to the communications system.

OTHER

Interest expense decreased in 1995 and 1994 from prior years. During 1995, the company issued and assumed new debt balances as a result of the purchase of SHL in November 1995. The increase in average debt balances and higher interest rates increased interest costs in 1995 and 1994; however, these increases were more than offset by increased capitalized interest due to the company's increased investment in its communications system.

Interest income increased significantly in 1995 and 1994 from 1993 due to the investment of the BT proceeds received in September 1994. Interest income declined in the fourth quarter of 1995 and will continue to decline in 1996 as cash is used to fund the company's business acquisitions and its investments in ventures and developing markets.

Other expense, net, decreased by $37 million in 1995, which reflected a $25 million charge recorded in 1994 in connection with the settlement of two class action suits and the dividend income of $18 million from News Corp. recorded in 1995.

EQUITY IN INCOME (LOSSES) OF AFFILIATED COMPANIES
The company's equity in losses from its investment in affiliates, exclusive of the aforementioned special charge impact, was $92 million in 1995. The majority of the 1995 losses were attributable to Concert and In-Flight Phone Corporation. Equity in losses of affiliated companies was $4 million in 1994, which included Concert losses that were partially offset by a gain on the sale of the company's equity investment in AAP Telecommunications Pty. Ltd. The company expects losses to continue in 1996 due to the start-up nature of these and other investments in ventures and developing markets as discussed in the Enterprise Reporting section.

WEIGHTED AVERAGE SHARES
Weighted average shares increased approximately 14% in 1995 due to the issuance to BT in September 1994 of 108.5 million shares of Class A common stock.

ENTERPRISE REPORTING

The company has invested in ventures and developing markets outside of its core business through acquisitions, alliances and other strategic initiatives in the local, wireless, information technology, international and multimedia markets. Investments in these ventures and developing markets are included in the company's financial statements as consolidated subsidiaries, unconsolidated equity investments, or cost method investments such as News Corp.

This section segregates the performance of the company's core business from its investments in ventures and developing markets business. The following unaudited information was prepared using all amounts included in the company's consolidated financial statements and reflects estimates and allocations that management believes provide a reasonable basis on which to present such information. The revenue and income amounts include sales of services between the core business and the ventures and developing markets business based upon prevailing market rates. Administrative expenses are allocated to the respective enterprises on a fully distributed basis reflective of actual utilization. Net interest expense is fully distributed based upon proportionate debt levels reflecting the cash flow of the respective enterprise commencing on October 1, 1995. Prior to October 1, 1995, all debt was allocated to the core business except for amounts allocated to support the acquisition of Nationwide and the investment in News Corp. The consolidated income tax provision and related tax payments are allocated to each enterprise based on its tax attributes.

FINANCIAL SUMMARY
For the year ended December 31, 1995, net income (loss) for the core business and the ventures and developing markets business was $757 million and $(209) million, respectively. EBITDA (earnings before interest, taxes, depreciation and amortization), excluding other income (expense) and equity in income (losses) of affiliated companies, was $2,992 million for the core business and $(46) million for the ventures and developing markets business for the year ended December 31, 1995. EBITDA, a measure of the company's ability to generate cash flows, should be considered in addition to, but not as a substitute for, or superior to, other measures of financial performance reported in accordance with generally accepted accounting principles. EBITDA, also known as operating cash flow, is often used by analysts when evaluating companies. Operating income (loss) for the core business and the ventures and developing markets business was $1,226 million and $(108) million, respectively.

The following table summarizes the financial highlights of these enterprises excluding the aforementioned special pretax charges.

SUPPLEMENTAL ENTERPRISE REPORTING DATA

Year ended December 31, 1995 *(In millions)*	Core Business	Ventures and Developing Markets
Revenue	$14,990	$365
EBITDA*	3,208	(46)
Operating income (loss)*	1,923	(69)
Equity in income (losses) of affiliated companies*	–	(92)
Net income (loss)*	1,191	(125)
Capital expenditures	2,558	308

*Amounts have been adjusted to exclude the impact of the special charges.

The following discussion focuses on significant financial and operational results of the company's ventures and developing markets business.

LOCAL SERVICES
MCImetro, the company's wholly-owned local services subsidiary, provides local fiber-optic capacity and competitive access services to the company's core business and other long distance carriers, large businesses and government users of telecommunications services. MCImetro intends to become a single-source provider of comprehensive local wireline telecommunications services, encompassing voice, data and

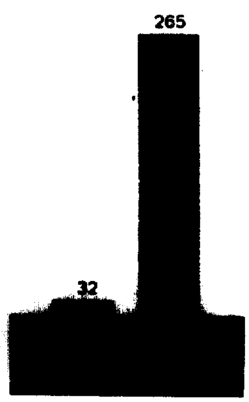
ınced services in key markets as regulatory authorities per- .t. At December 31, 1995, MCImetro had been granted authority to offer local exchange service in 14 states and had applications for such services pending in six other states.

In 1995, MCImetro installed 10 Class 5 local switches and conducted testing of its initial set of local service offerings and support systems. In February 1996, MCImetro offered its initial set of local exchange services in Baltimore, Boston and Detroit. The initial services encompass basic local telephone service, business lines, private branch exchange (PBX) trunks and access services, which provide businesses with high quality dedicated access connections to a long distance carrier or other service provider, as well as enhanced services.

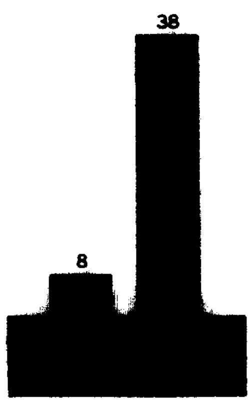
As of December 31, 1995, MCImetro had constructed 38 operational local city networks in 25 cities, which represented an increase of 30 local city networks and 20 cities in 1995. At December 31, 1995, MCImetro had 2,338 route miles and 3,700 right-of-way miles.

In 1995, MCImetro reported revenue of $108 million on sales of fiber-optic capacity and competitive access services, of which substantially all was derived from sales to the company's core business. EBITDA for the year ended December 31, 1995 was $(15) million and net loss was $(17) million. For the ɿe period, MCImetro made capital expenditures of $265 lion, which were primarily for the construction of its local city networks and Class 5 switch development.

MCImetro CAPITAL EXPENDITURES
in millions of dollars



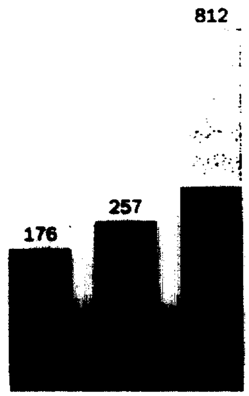
MCImetro LOCAL CITY NETWORKS



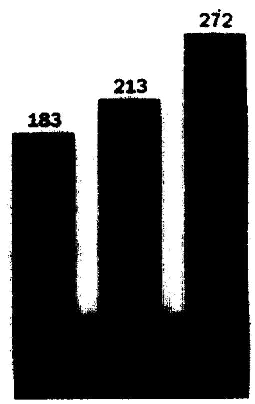
WIRELESS SERVICES

Wireless services revenue for the three months ended December 31, 1995, following the acquisition of Nationwide, was $82 million, which was derived from cellular and paging services, as well as equipment sales. EBITDA for the same period was $(5) million and net loss was $(10) million. At December 31, 1995, the company had approximately 347,000 cellular service subscribers and 465,000 paging service subscribers. The company provides wireless services through resale from facility based wireless service providers.

WIRELESS CUSTOMER BASE*
in thousands



WIRELESS REVENUE*
in millions of dollars



*1993, 1994 and 1995 includes Nationwide's operational results prior to acquisition by the company and are shown for comparison purposes only.

INFORMATION TECHNOLOGY SERVICES

Information technology services revenue for the three months ended December 31, 1995, including SHL revenue from the November 1995 acquisition date, was $126 million, which was comprised of $62 million of equipment deployment and educational services, $37 million for consulting and systems integration and $27 million for outsourcing services. EBITDA was $1 million and net loss was $(17) million for same period.

Backlog at December 31, 1995 was $1.4 billion, the majority of which was from the 10 largest contracts. Reported backlog includes amounts committed under executed contracts or letters of intent. The company expects that approximately 30% of the backlog will be delivered in 1996. Since revenue depends on actual usage under service contracts, which may be subject to termination under certain circumstances, actual revenue for a particular contract may be higher or lower than the reported backlog for such contract.

INTERNATIONAL SERVICES

During 1995, the company invested $66 million in Concert, a 24.9% owned international services venture with BT, which provides global enhanced telecommunications services for business customers. This represents the company's percentage share of required ongoing capital infusions to the venture. For the year ended December 31, 1995, the company's share of Concert losses reported in accordance with U.S. generally accepted accounting principles was $(57) million, excluding Concert's special charges. Through December 31, 1995, the company has invested a total of $145 million since Concert's launch in July 1994. The company intends to continue making contributions to Concert in order to maintain its proportionate interest.

For the twelve months ended December 31, 1995, Concert product sales amounted to approximately $300 million in revenue to its distributors. Concert services are available through the company, BT and distributors in North America, Europe and Asia. Concert provides a complete portfolio of advanced global communication services to multinational businesses worldwide, which include virtual network, frame relay, managed bandwidth and packet services. Monthly revenues for these services, in the aggregate, grew more than 100% year-over-year. The Concert network has 6,000 nodes deployed in over 800 cities in more than 50 countries.

In November 1995, the company increased its investment in AVANTEL, a 44.5% owned business venture with Grupo Financiero Banamex-Accival, to approximately $250 million, which represents half of the company's total anticipated investment, the remainder of which is expected to be made in 1996. In September 1995, AVANTEL received a license from the Mexican Secretariat of Communications and Transportation to construct and operate a nationwide fiber-optic telecommunications network in Mexico. AVANTEL plans to provide competitive domestic and international long distance telecommunications services in Mexico when the market opens for competition for business customers in August 1996. Certain value added, private line and data services may be offered prior to that time. A full range of competitive switched long distance services is expected to be offered by AVANTEL to residential and business customers beginning in January 1997. For the year ended December 31, 1995, AVANTEL's capital expenditures were $86 million, and at December 31, 1995, AVANTEL had installed 1,540 route miles of its fiber-optic network in Mexico.

MULTIMEDIA SERVICES

The company invested $1 billion in News Corp. in August 1995, and recorded $18 million in dividend income during the period ended December 31, 1995. The company has the option for five years to invest an additional $1 billion in News Corp. During the five year period, under certain circumstances, News Corp. can require the company to invest the additional $1 billion or a part thereof. In January 1996, News Corp. exercised a portion of this right by requiring the company to invest $350 million in the first half of 1996. If the $2 billion investment had been made and the related warrants exercised at December 31, 1995, the company would have held a 13.8% voting interest (12.9% on a fully diluted basis) in News Corp.

On January 25, 1996, the company submitted the winning bid of $682 million for the last remaining unallocated DBS spectrum slot that provides coverage of all fifty states and Puerto Rico, located at 110-degrees West Longitude. DBS is a point-to-multipoint broadcast service that uses high-powered Ku band satellites which are placed in geosynchronous orbit. The company has paid a portion of the license fee, with the remainder due upon receipt of the license. In addition, the company and News Corp. will form a joint venture to enter United States DBS video, audio and data market. The venture will offer information and entertainment services to businesses and consumers. The companies plan to invest approximately $1.3 billion, on a 50-50 basis, in the venture, and expect to offer service by late 1997.

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MCI

IANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

Cash from operating activities increased 26% to $2,979 million in 1995 and 19% to $2,355 million in 1994, which was consistent with the growth in the company's recurring income from operations for these periods. A significant increase in interest received, which resulted from a full year earnings of marketable securities, also contributed to the 1995 increase. Cash from operating activities has been the company's primary source of cash to finance capital expenditures. The 1995 business acquisitions and investments in ventures and developing markets were funded with proceeds from the BT investment and, to a lesser extent, from the issuance of commercial paper. In 1994, financing activities were a significant source of cash as a result of the BT transaction and debt issuances. EBITDA, excluding special charges, other income (expense) and equity in income (losses) of affiliated companies increased to $3.2 billion in 1995 from $2.7 billion in 1994 and $2.4 billion in 1993. The increases were primarily a result of strong revenue growth, which was partially offset by higher operating expenses.

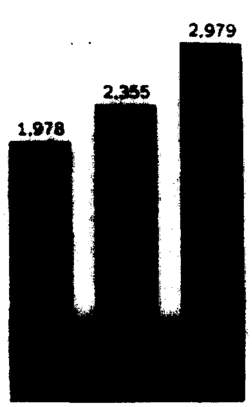
WORKING CAPITAL

The company had working capital (current assets less current liabilities) of $(.3) billion and $1.8 billion at December 31, 1995 and 1994, respectively. The decline in working capital was primarily attributable to the use of cash and cash equivalents and the sale of marketable securities to fund 1995 business acquisitions and investments in ventures and developing markets. Current assets decreased due to a decline in cash, cash equivalents and current marketable securities of $1.4 billion, which was offset by increases of $.7 billion in receivables and $.4 billion in other. The increase in receivables and other current assets reflected strong year-end business volumes and acquired company balances. Current liabilities increased $1.7 billion from December 31, 1994 due to increases of $.5 billion in accrued telecommunications expense and accounts payable, $.8 billion in other accrued liabilities and $.4 billion in long-term debt due within one year. The increase in accrued telecommunications expense and accounts payable was attributable to the growth in the company's overall business and acquired company balances. Other accrued liabilities increased primarily due to the accrued reorganization costs, increases in accrued payroll and related costs and acquired company balances. Long-term debt due within one year increased as a result of current maturity on the company's long-term debt portfolio.

CAPITAL EXPENDITURES

The company continued to invest in its communications system in order to increase network capacity, reliability and performance, and to enhance network intelligence. Capital expenditures for property and equipment were approximately $2.9 billion in each of 1995 and 1994, and $1.7 billion in 1993. The increases in capital expenditures for 1995 and 1994 were due primarily to increases in capacity, intelligent network and switch software development, and the company's continued deployment of Synchronous Optical Network (SONET) technology. SONET technology enables high-speed multimedia applications and information services, as well as advanced network technologies for improved reliability and delivery of advanced services. Also contributing to the 1995 increase were MCImetro capital expenditures of approximately $.3 billion. In addition to the construction of MCImetro's SONET-based local city networks, during 1995, the company accelerated its deployment of long distance network SONET rings around major metropolitan areas. SONET rings provide millisecond restoration of traffic in the event of a fiber cut. In addition, the company activated the nation's first commercial network combining SONET and Asynchronous Transfer Mode (ATM) technologies called vBNS, very high-speed backbone network service during 1995. The combination of SONET and ATM allows the company to combine voice, data and video transmissions for unique high-speed applications over a single channel. Property and equipment retirements were $.9 billion and $1.1 billion in 1995 and 1994, respectively.

CASH FROM OPERATIONS
in millions of dollars



CAPITAL EXPENDITURES
in millions of dollars

FUNDING OF CAPITAL EXPENDITURES AND INVESTMENTS IN VENTURES AND DEVELOPING MARKETS

In 1995, the company funded its capital expenditures, acquisitions of SHL and Nationwide, as well as investments in News Corp., AVANTEL, Concert and other ventures, through cash from operations, marketable securities purchased with the proceeds from the investment of BT and debt issuances. In 1996, the company plans to spend approximately $3 billion on capital expenditures, which includes MCImetro capital expenditures, most of which will be funded with cash from operations. In addition, the company expects to invest approximately $2 billion in existing ventures and developing markets, which includes the company's share of planned DBS venture costs, additional investment in News Corp., and a 1996 planned capital contribution in AVANTEL. The company believes that it will be able to meet its current and long-term liquidity and its capital requirements from cash from operations and existing debt facilities. The company has a $2 billion bank credit facility, which expires in July 2000. The bank credit facility supports the company's commercial paper program and may also be used to fund short-term fluctuations in working capital and other general corporate requirements. In addition, the company has a $1 billion shelf registration in effect, which covers debt securities with a range of maturities at either fixed or variable rates. At December 31, 1995, there was $705 million outstanding under the commercial paper program and bank credit facility, and no securities were issued under the shelf registration.

The company's ratio of debt to total capitalization, defined as total debt to total debt plus equity, increased to 29% at December 31, 1995 from 26% at December 31, 1994, as a result of the issuance of commercial paper to fund certain of the company's business acquisitions and investments in ventures and developing markets. On September 30, 1994, the company issued 108.5 million shares of Class A common stock to BT for $3.5 billion in cash, which caused the company's debt to total capitalization ratio to decrease to 26% at December 31, 1994 from 35% at December 31, 1993.

INCOME STATEMENTS

Ye[illegible]ed December 31, (I[illegible]ions, except per share amounts)	1995	1994	1993
REVENUE	$15,265	$13,338	$11,921
OPERATING EXPENSES			
Telecommunications	7,813	6,916	6,373
Sales, operations and general	4,506	3,790	3,310
Depreciation	1,308	1,176	970
Asset write-down	520	–	–
TOTAL OPERATING EXPENSES	14,147	11,882	10,653
INCOME FROM OPERATIONS	1,118	1,456	1,268
Interest expense	(149)	(153)	(178)
Interest income	147	50	8
Other expense, net	(32)	(69)	(51)
Equity in income (losses) of affiliated companies	(187)	(4)	(2)
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	897	1,280	1,045
Income tax provision	349	485	418
Income before extraordinary item	548	795	627
Extraordinary loss on early debt retirements, less applicable tax benefit of $26 million	–	–	45
NET INCOME	$ 548	$ 795	$ 582
[illegible]ends on preferred stock	–	1	1
[illegible]RNINGS APPLICABLE TO COMMON STOCKHOLDERS	$ 548	$ 794	$ 581
EARNINGS PER COMMON AND COMMON EQUIVALENT SHARES			
Income before extraordinary item	$ .80	$ 1.32	$ 1.12
Loss on early debt retirements	–	–	(.08)
Total	$ .80	$ 1.32	$ 1.04
Weighted average number of common shares	687	604	562

See accompanying Notes to Consolidated Financial Statements.

BALANCE SHEETS

December 31, *(In millions)*	1995	1994
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 471	$ 1,429
Marketable securities	373	839
Receivables, net of allowance for uncollectibles of $260 and $226 million	2,954	2,266
Other current assets	749	354
TOTAL CURRENT ASSETS	4,547	4,888
PROPERTY AND EQUIPMENT		
Communications system in service	11,318	9,766
Furniture, fixtures and equipment	2,432	1,974
Other property	493	478
TOTAL PROPERTY AND EQUIPMENT	14,243	12,218
Accumulated depreciation	(5,238)	(4,349)
Construction in progress	1,304	1,190
TOTAL PROPERTY AND EQUIPMENT, NET	10,309	9,059
OTHER ASSETS		
Noncurrent marketable securities	–	824
Other assets and deferred charges, net	469	293
Investment in affiliates	495	199
Investment in News Corp.	1,000	–
Goodwill, net	2,481	1,103
TOTAL OTHER ASSETS	4,445	2,419
TOTAL ASSETS	$19,301	$16,366
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 706	$ 609
Accrued telecommunications expense	1,936	1,505
Other accrued liabilities	1,728	893
Long-term debt due within one year	500	130
TOTAL CURRENT LIABILITIES	4,870	3,137
NONCURRENT LIABILITIES		
Long-term debt	3,444	2,997
Deferred taxes and other	1,385	1,228
TOTAL NONCURRENT LIABILITIES	4,829	4,225
STOCKHOLDERS' EQUITY		
Class A common stock, $.10 par value, authorized 500 million shares, issued 136 million shares	14	14
Common stock, $.10 par value, authorized 2 billion shares, issued 593 and 592 million shares	60	60
Additional paid in capital	6,405	6,227
Retained earnings	4,063	3,548
Treasury stock, at cost, 43 and 48 million shares	(940)	(845)
TOTAL STOCKHOLDERS' EQUITY	9,602	9,004
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$19,301	$16,366

See accompanying Notes to Consolidated Financial Statements.

STATEMENTS OF CASH FLOWS

ended December 31, (n millions)	1995	1994	1993
OPERATING ACTIVITIES			
Receipts from customers	$ 14,786	$ 13,298	$11,546
Payments to suppliers and employees	(11,453)	(10,472)	(9,106)
Taxes paid	(410)	(393)	(321)
Interest paid	(113)	(100)	(150)
Interest received	169	22	9
CASH FROM OPERATING ACTIVITIES	2,979	2,355	1,978
INVESTING ACTIVITIES			
Capital expenditures for property and equipment	(2,866)	(2,897)	(1,733)
Purchases of marketable securities	(4,630)	(4,096)	–
Proceeds from sales and maturities of marketable securities	5,930	2,424	3
Acquisition of businesses, net of cash acquired	(1,243)	(110)	5
Investment in News Corp.	(1,000)	–	–
Investment in affiliates	(494)	(174)	(13)
Other, net	11	(64)	(21)
CASH USED FOR INVESTING ACTIVITIES	(4,292)	(4,917)	(1,759)
NET CASH FLOW BEFORE FINANCING ACTIVITIES	(1,313)	(2,562)	219
FINANCING ACTIVITIES			
suance of Senior Notes and other debt	–	939	756
yment of Senior Notes and other debt	(305)	(246)	(1,468)
ommercial paper and bank credit facility activity, net	702	(239)	(497)
Issuance of preferred stock	–	–	830
Issuance of Class A common stock	–	3,510	–
Issuance of common stock for employee plans	275	248	319
Payment of dividends on common and preferred stock	(33)	(32)	(28)
Purchase of treasury stock	(284)	(354)	(198)
CASH FROM (USED FOR) FINANCING ACTIVITIES	355	3,826	(286)
Net (decrease) increase in cash and cash equivalents	(958)	1,264	(67)
Cash and cash equivalents at beginning of year	1,429	165	232
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 471	$ 1,429	$ 165
RECONCILIATION OF NET INCOME TO CASH FROM OPERATING ACTIVITIES:			
Net income	$ 548	$ 795	$ 582
Adjustments to net income:			
Depreciation and amortization	1,367	1,230	1,019
Asset write-down	520	–	–
Equity in (income) losses of affiliated companies	187	4	2
Deferred income tax provision	144	269	253
Net change in operating activity accounts other than cash and cash equivalents, net of effects of acquisition of businesses:			
Receivables	(442)	(135)	(370)
Operating accounts payable	57	36	(68)
Other operating activity accounts	598	156	560
CASH FROM OPERATING ACTIVITIES	$ 2,979	$ 2,355	$ 1,978

See accompanying Notes to Consolidated Financial Statements.

STATEMENTS OF STOCKHOLDERS' EQUITY

(In millions)	Preferred Stock	Class A Common Stock	Common Stock	Additional Paid in Capital	Retained Earnings	Treasury Stock, at Cost	Stockholders' Equity
BALANCE AT DECEMBER 31, 1992	–	–	$ 30	$1,479	$2,231	$(590)	$3,150
Common stock issued for employee stock and benefit plans (23 million shares)	–	–	–	179	–	160	339
Tax benefit of common stock transactions related to employee benefit plans	–	–	–	36	–	–	36
Net income	–	–	–	–	582	–	582
Common and preferred dividends	–	–	–	–	(28)	–	(28)
Convertible preferred stock issued	$ 1	–	–	829	–	–	830
Stock split effected in the form of a 100% stock dividend	–	–	30	(30)	–	–	–
Treasury stock purchased (8 million shares)	–	–	–	–	–	(196)	(196)
BALANCE AT DECEMBER 31, 1993	1	–	60	2,493	2,785	(626)	4,713
Class A common stock issued (136 million shares) and preferred stock converted	(1)	$14	–	3,496	–	–	3,509
Common stock issued for employee stock and benefit plans (18 million shares)	–	–	–	180	–	124	304
Tax benefit of common stock transactions related to employee benefit plans	–	–	–	63	–	–	63
Change in unrealized loss on marketable securities	–	–	–	(5)	–	–	(5)
Net income	–	–	–	–	795	–	795
Common and preferred dividends	–	–	–	–	(32)	–	(32)
Treasury stock purchased (15 million shares)	–	–	–	–	–	(343)	(343)
BALANCE AT DECEMBER 31, 1994	–	14	60	6,227	3,548	(845)	9,004
Common stock issued for employee stock and benefit plans (18 million shares)	–	–	–	132	–	189	321
Tax benefit of common stock transactions related to employee benefit plans	–	–	–	25	–	–	25
Acquisition of business (.8 million shares)	–	–	–	16	–	–	16
Change in unrealized loss on marketable securities	–	–	–	5			5
Net income	–	–	–	–	548	–	548
Common stock dividends	–	–	–	–	(33)		(33)
Treasury stock purchased (13 million shares)	–	–	–	–	–	(284)	(284)
BALANCE AT DECEMBER 31, 1995	$ –	$14	$ 60	$6,405	$4,063	$(940)	$9,602

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

N 1. SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

The company operates predominantly in a single industry segment, the telecommunications industry, which consists of a wide range of telecommunications services to residential and business customers, including domestic and international long distance voice and data services, wireless, teleconferencing and electronic messaging services.

USE OF ESTIMATES IN PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used when accounting for revenue, allowance for uncollectible receivables, telecommunications expense, depreciation and amortization, reorganization accruals and asset write-downs, employee benefit plans and taxes.

CIPLES OF CONSOLIDATION

The financial statements include the consolidated accounts of MCI Communications Corporation and its majority-owned subsidiaries (collectively, the company) with all significant intercompany transactions eliminated.

REVENUE

The company records as revenue the amount of communications services rendered, as measured primarily by the minutes of traffic processed, after deducting an estimate of the traffic which will be neither billed nor collected. Service discounts and incentives are accounted for as a reduction of revenue when granted or, where a service continuation contract exists, ratably over the contract period. Revenue from information technology services is recognized, depending on the service provided, on a percentage of completion basis or as services and products are rendered or delivered.

CASH AND CASH EQUIVALENTS

Cash equivalents consist primarily of certificates of deposit, securities of the U.S. Government and its agencies and corporate debt securities all having maturities of ninety days or less when purchased. The carrying amount reported in the accom- ying balance sheets for cash equivalents approximates fair e due to the short-term maturity of these instruments.

At December 31, 1995 and 1994, checks not yet presented for payment of $248 million and $192 million in excess of cash balances, respectively, were included in current liabilities. The company had sufficient funds available to cover these outstanding checks when they were presented for payment.

INVESTMENTS

Investments in marketable securities at December 31, 1995 and 1994 are classified as available for sale and are reported at fair value in accordance with Statement of Financial Accounting Standards No. 115 (SFAS 115), "Accounting for Certain Investments in Debt and Equity Securities." The fair values are based on quoted market prices, and any holding gains and losses are excluded from earnings and reported as a net amount in additional paid in capital until realized. Realized gains and losses are recorded in the income statement and the cost assigned to securities sold is based on the specific identification method.

The company uses the equity method to account for investments in entities in which it has less than a majority interest but can exercise significant influence. These investments are classified on the accompanying balance sheets as investment in affiliates. Under the equity method, the investment, originally recorded at cost, is adjusted to recognize the company's share of the net earnings or losses of the affiliates as they occur, rather than as dividends or other distributions are received, limited to the extent of the company's investment in, advances to and guarantees for the investee. The company's share of net earnings or losses of affiliates includes amortization of purchase adjustments. Other investments in which the ownership is less than 20% and the company does not exercise significant influence are recorded at cost. The company's investment in News Corp. is recorded under the cost method.

PROPERTY AND EQUIPMENT

The investment in communications system is recorded at cost and includes material, interest, labor and overhead. The costs of construction and equipment are transferred to communications system in service as construction projects are completed and/or equipment is placed in service. Depreciation is recorded commencing with the first full month that the assets are in service and is provided using the straight-line method over their estimated useful lives. A majority of the company's communications system assets are grouped in like pools for depreciation purposes. For these asset groups, the cost of equipment retired in the ordinary course of business, less proceeds, is charged to accumulated depreciation. The company periodically reviews and adjusts the useful lives assigned to fixed assets to ensure that depreciation charges provide appropriate recovery of capital costs over the estimated physical and technological lives of the assets. The weighted average depreciable life of the assets comprising the communications system in service approximates 10 years. Furniture, fixtures and equipment are depreciated over a weighted average life of 6 years and includes computer and data center equipment along with other administrative assets. Other property includes land, buildings and leasehold improvements. Leasehold improvements are depreciated over the shorter of the life of the equipment or the life of the lease. Buildings are depreciated using lives of up to 35 years. Maintenance and repairs are charged to expense as incurred.

CAPITAL LEASES

Certain of the company's lease obligations meet the criteria of a capital lease. These obligations are recorded at the present value of the future lease payments, including estimated bargain purchase options, discounted at the approximate interest rate implicit in each lease. Amounts are depreciated over the estimated useful lives of the equipment, which are generally longer than the terms of the leases. Leases not capitalized are primarily for land on which communications equipment is located and for administrative facilities, including office buildings, vehicles, certain data processing equipment and office equipment.

OTHER ASSETS AND DEFERRED CHARGES

Included in other assets and deferred charges are unamortized customer discounts and service incentives, right-of-way agreements with third parties, purchased subscriber base, deferred advertising costs and debt issuance costs. Deferred customer discounts and service incentives are amortized over the life of the specific contract to which they relate; also included are amounts recoverable under long-term customer service contracts, which are amortized over the contract period. Right-of-way costs are amortized as the assets are placed in service, over the lesser of the remaining term of the agreements or 25 years. Purchased subscriber base is amortized over the period benefited. In accordance with Statement of Position 93-7, "Reporting on Advertising Costs," certain advertising costs are deferred and amortized over the period benefited. Debt issuance costs are amortized over the life of the applicable debt.

GOODWILL

Goodwill represents the excess of the cost to acquire subsidiaries over the estimated fair market value of the net assets acquired. These amounts are amortized using the straight-line method over lives ranging from 10 to 40 years. Accumulated amortization at December 31, 1995 and 1994 was $172 million and $131 million, respectively. The company periodically evaluates the realizability of goodwill based upon projected undiscounted cash flows and operating income for each subsidiary having a material goodwill balance. The company believes that no impairment of goodwill existed at December 31, 1995.

FOREIGN EXCHANGE CONTRACTS AND INTEREST RATE SWAPS

The company enters into foreign exchange contracts and interest rate swap agreements to hedge its foreign currency risks and reduce its interest rate exposure (see Note 9). While the company does not engage in speculation, it is exposed to market rate risk in the event of nonperformance by the other parties to the agreements. The company manages credit risk by regularly monitoring and evaluating the counterparties. At December 31, 1995, the fair values of and potential risk of loss on these agreements were not material.

INCOME TAXES

The company files a consolidated federal income tax return on a March 31 fiscal year end. Deferred income taxes are provided on transactions which are reported in the financial statements in different periods than for income tax purposes. Income tax benefits of tax deductions related to common stock transactions with the company's employee benefit plans are recorded directly to additional paid in capital. General business credits are accounted for by the flow-through method.

EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE

Earnings per common and common equivalent share amounts are based on the weighted average number of shares of common stock outstanding during each year, adjusted for the effect of common stock equivalents arising from the assumed exercise of stock options, if dilutive, and the assumed conversion of the Series D convertible preferred stock in 1993. Fully diluted earnings per share are not materially different from primary earnings per share.

RECLASSIFICATION

Certain prior year information has been reclassified to conform to the current year presentation.

OTE 2. 1995 SPECIAL CHARGES

During the third quarter of 1995, the company implemented a reorganization designed to increase efficiency, enhance marketplace effectiveness and improve business focus. The reorganization was largely in response to the rapid changes in business scope, technology and regulation affecting the telecommunications industry. The company consolidated its core business and centralized major administrative functions. The core business includes network operations, information systems and the former Business Markets and Consumer Markets groups. In connection with this reorganization and in response to other third quarter 1995 events, the company recorded special pretax charges of $831 million, which were comprised of the following three major components.

The company recorded a $520 million charge for an asset write-down, which reflected a decline in value of certain of the company's assets caused by changes in the business and technology strategy. The write-down primarily related to communications systems and administrative assets that have become redundant or were no longer aligned with strategic product offerings. The amount of the write-down was measured in conformity with the Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which the company adopted in the third quarter of 1995. Under this standard, charges were taken for the difference between the current carrying value and the estimated fair value of such assets at the expected disposal date. In the company's case, the fair value of most of the assets covered by this write-down was deemed to be salvage value. Disposal or abandonment of substantially all of these assets occurred by December 31, 1995.

The company also recorded a $216 million charge in sales, operations and general expenses, which related primarily to reorganization costs. These costs included approximately $50 million of severance associated with a workforce reduction, $55 million of lease obligations and penalties associated with vacating facilities, and $45 million of costs to modify and terminate contracts associated with changes in the business organization and strategic product offerings. The remainder of the charge included other costs associated with the company's business reorganization and certain legal costs. The company expects to reduce its workforce by approximately 2,800 employees, of whom approximately 2,400 had left the company at December 31, 1995. The remaining employees are expected to leave during the first half of 1996. The terminated employees, which included management and nonmanagement, were primarily sales, support and systems engineering personnel located at business administrative and operations sites. The company abandoned excess and duplicate facilities at various business and operations locations due to automation, workforce reductions and centralization.

As of December 31, 1995, the company had incurred $55 million of the accrued reorganization costs with the majority of the remaining costs to be incurred during 1996. The remaining accrual is primarily comprised of costs associated with lease obligations, severance, modification and termination of contracts, other business reorganization costs and certain accrued legal costs. The reorganization accrual is charged when applicable severance payments are disbursed, or when rental expense is incurred or lease termination costs are disbursed, or when contract settlements are completed and payment is disbursed. Other costs are charged as incurred. Cash expenditures for these expenses were and will continue to be funded from cash from operations.

In addition, the company recorded a charge of $95 million in equity in income (losses) of affiliated companies, which related to several investees where restructuring plans were implemented in the third quarter of 1995 or where product offerings were not expected to generate future cash flows sufficient to recover current carrying values.

NOTE 3. ACQUISITIONS

In September 1995, the company completed its acquisition of Nationwide Cellular Service, Inc. (Nationwide), a provider of cellular phone service, for approximately $210 million. In November 1995, the company acquired all the outstanding shares of SHL Systemhouse Inc. (SHL), a Canadian corporation which provides information technology services to commercial and government enterprises, for U.S. $13 per share or approximately U.S. $1.13 billion. These acquisitions have been accounted for as purchase business combinations and, accordingly, the net assets and results of their operations have been included in the company's financial statements since the acquisition dates. Acquisition costs have been allocated to the fair value of assets acquired, including intangibles, and liabilities assumed. The total assets acquired, including excess of cost over net assets acquired, for these and other less